

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4702-01  
Bill No.: SB 1281  
Subject: Taxation and Revenue - Income  
Type: Original  
Date: March 8, 2004

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>
General Revenue	\$118,151,282	\$266,316,118	\$76,117,586
<b>Total Estimated Net Effect on General Revenue Fund*</b>	<b>\$118,151,282</b>	<b>\$266,316,118</b>	<b>\$76,117,586</b>

**\* This proposal is permissive. Voter approval would be required before fiscal impact would be realized.**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>
<b>Total Estimated Net Effect on <u>All</u> State Funds*</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 6 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

### **FISCAL ANALYSIS**

#### **ASSUMPTION**

**Department of Revenue (DOR)** officials state this legislation will provide an increase in revenues over the course of three years, with intent to slowly phase it out during that time.

DOR assumes Taxation will have to modify the MINITS system each tax year that the rate is changed. DOR estimates that 692 hours of programming and testing will be needed at a cost of \$23,085.

The withholding tax formula will be modified and posted on the Web for all employers to use when calculating withholding on their employers. Taxation will have, at the year-end, incorporate the new tax information in all of the tax return books. Since this will be a table change and a withholding change, Taxation does not anticipate a large volume of taxpayers contacting the Tax Assistance Centers or the phone centers. However, if this is incorrect Taxation would need 1 Tax Collection Tech for every 15,000 calls a year to the 751-7200 delinquent line and 1 Tax Collection Tech for every 15,000 calls a year to the 751-3505 income tax inquiry line.

Officials from the **Office of Administration, Budget and Planning (BAP)** assume this proposal has no impact on BAP. BAP assumes this proposal would:

ASSUMPTION (continued)

For the tax year beginning January 1, 2005, add a ½% income tax surcharge on all returns with adjusted gross income greater than \$9,000.

For the tax year beginning January 1, 2006, add a 1/4% income tax surcharge on all returns with adjusted gross income greater than \$9,000.

For the tax year beginning January 1, 2007, add a 1/8% income tax surcharge on all returns with adjusted gross income greater than \$9,000.

According to Statistics of Income data provided by the IRS, for the tax year 2001, on tax returns with greater than \$9,000 AGI, a total of \$105.6 billion of AGI was reported. Assuming 3% growth in AGI for each subsequent year, and using the tax rates assumed above, the following GR impacts can be expected:

FY	AGI (\$B)	Surcharge (\$M)
2006	119.0	595.0
2007	122.6	306.5
2008	126.3	157.9

Because the surcharge goes into effect January 1, 2005, DOR may adjust the withholding tables to reflect it. In this case, the timing of the revenue gains above may be altered, with some revenue gains expected during the latter half of FY 2005.

Officials from the **Secretary of State (SOS)** assume statewide newspaper publication of constitutional amendments cost approximately \$1,228 per column inch based on estimate provided by the Missouri Press Service x 3 for multiple printings as required by the Constitution and state statute = \$3,684 per column inch. SOS estimates the total number of inches for this amendment to be 15 inches, which includes title header and certification paragraph. \$3,684 x 10 inches = \$36,840.

**University of Missouri, Research Center (UMRC)** officials state this proposal increases the highest marginal tax rate applied to individual income. The increase is then phased out over the next three years. Overall, the one-half percentage-point increase in 2005 would generate an additional \$240.4 million. The gain in 2006, when the rate is lowered to 6.25% is \$120.3 million. For calendar year 2007, the increase is about \$60 million.

ASSUMPTION (continued)

Assuming 3% growth in AGI for each subsequent year, **Oversight** adjusted the revenue impact provided by UMRC to \$262.7 million in FY06, \$135.4 million in FY07, and \$69.6 million in FY08. **Oversight** assumes since DOR will adjust the withholding tax tables in 2005 for FY06, an estimated 45% of the revenue could be received in FY05 (\$118.2 million). The estimates for FY06 and FY07 would also need adjusted to allow for the change in the withholding tax tables. **Oversight** assumes 90% of the revenue could be received in the current tax year and adjusts FY06 to \$266.3 million and FY07 to \$76.1 million.

Since this legislation is subject to voter referendum, **Oversight** assumes this proposal would have no state fiscal impact without voter approval. **Oversight** assumes the proposal would be on the ballot for the first Tuesday in November 2004.

**This proposal would result in an increase in Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
<b>GENERAL REVENUE FUND</b>			
<u>Income</u> - General Revenue			
Income tax surcharge	\$118,211,207	\$266,339,203	\$76,140,671
<u>Cost</u> - Dept. of Revenue			
Programming	(\$23,085)	(\$23,085)	(\$23,085)
<u>Cost</u> - Secretary of State			
Publication costs	<u>(\$36,840)</u>	<u>\$0</u>	<u>\$0</u>
<b>TOTAL ESTIMATED NET EFFECT ON GENERAL REVENUE FUND*</b>	<b><u>\$118,151,282</u></b>	<b><u>\$266,316,118</u></b>	<b><u>\$76,117,586</u></b>

\* This proposal is permissive. Voter approval would be required before fiscal impact would be realized.

FISCAL IMPACT - Local Government

FY 2005  
(10 Mo.)

FY 2006

FY 2007

\$0

\$0

\$0

FISCAL IMPACT - Small Business

Small businesses would be expected to pay the increased income tax as a result of this proposal.

DESCRIPTION

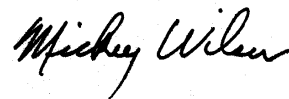
This proposal increases the income tax by 1/2% for one year, then lowers the increase to 1/4% for one year, then lowers the increase to 1/8% for one year, and finally returns the sales tax rate to the current levy.

The proposal has a referendum clause for November 2004, and an effective date of January 1, 2005, if approved by the voters.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue  
Office of Administration  
    Budget and Planning  
Secretary of State  
University of Missouri  
    Research Center



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